

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance
from the NOVA – School of Business and Economics.

**MASTERING CONSUMER DRIVEN
CHALLENGES**

–

A SHIFT TO DIGITAL AND DTC

PEDRO DELICADO
MARTINS DA SILVA CARVALHO
45650

A Project carried out on the Master in Finance Program, under the supervision of:

Angelo Corelli, PhD in Economics and Finance
Nuno Quartin Bastos de Vasconcelos e Sá, MBA

17/12/2021

Abstract

The equity research report analyzes Adidas AG strategy until 2025 in detail and projections were drawn up based on trends in the various markets. The discussion revolves around the shift to DTC, both e-commerce and owned-branded stores, and how critical factors will affect the implementation of this strategy and the future cash-flows. There is a special focus on North America and Greater China markets, which can be key drivers on unbalancing the sportswear market share game. The result is a Buy recommendation of Adidas AG share implying a target price of EUR 318.01 as of 31/12/2022.

Keywords

Adidas AG

Valuation

Sportswear market

DTC

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the Equity Research report about Adidas AG - part 2 (annexed) and should be read as an integral part of it.

Table of contents

COMPANY OVERVIEW	5
STRATEGY.....	6
SALE OF REEBOK.....	7
INDUSTRY AND COMPETITIVE LANDSCAPE.....	8
GEOGRAPHICAL OVERVIEW	8
PEER GROUP ANALYSIS.....	11
KEY DRIVERS.....	15
ATHLEISURE	16
WOMENSWEAR.....	16
RISING SPORTS PARTICIPATION AND AWARENESS	17
SUSTAINABILITY	17
E-COMMERCE	18
“SPEED”	19



Company overview

Adidas was founded in 1949 by Adi Dassler and employs around 58,000 employees as of June 2021. Its purpose remains timeless, providing athletes with the maximum possible performance from professional competition to the recreational side, having produced **944 million products** for the year 2020, standing out that from those products, 379 million were footwear with an average annual growth of 4.5% in the past 10 years¹.

The company's business activities include design, development, distribution and marketing of athletic and sports lifestyle products and divides its products into footwear, apparel, as well as accessories and gear. The first two categories were responsible for **94.8%** of the total revenues in 2020. On the global sportswear market, Adidas takes the **number two position** behind Nike, but takes the lead in some important markets like Russia, Japan, and Europe. Adidas adopted the strategy "Creating the New" from 2015 to 2020, boosting the sales from EUR 16.9bn to 19.8bn (CAGR 2015-2020 of 3.2%) and increasing EBIT margin from 6.3% in 2015 to 11.8% in 2019, suffering a big decline during the pandemic in 2020 to 4.4%. For the next 5 years, Adidas has already defined its new strategy "Own the Game" and expects that sales and market share will increase substantially.

Adidas sells its products at around **2,500 stores** worldwide whereof **45%** are exclusive Adidas stores.² Nowadays, Adidas ships to almost 50 different locations and the e-commerce accounts for 21% of total revenues. Adidas outsources nearly all its manufacturing and produces with over 130 independent manufacturing partners in 277 manufacturing facilities, having an average of **13.6 years** in their relationships which transmits confidence in the continuity of operations even in times of crisis. From a universe of 115 thousand shareholders, 45% are general public and the top 25 investors control less than 50% of the company, so there is **no dominant shareholder**. Geographically, 62% are in Europe and 35% in the North American market and only 3% in the other markets.

In general, the sports, athletic footwear and apparel industry is cyclical and seasonal. Usually, the lowest margins are generated within the fourth quarter of the respective calendar year. The first and the third quarter is often characterized with high margins. Adidas should stimulate **full-price** and premium sales all year,

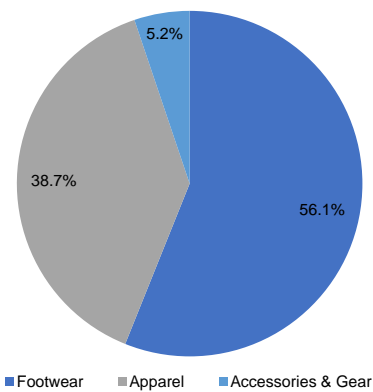


Figure 1: Sales distribution by category in 2020

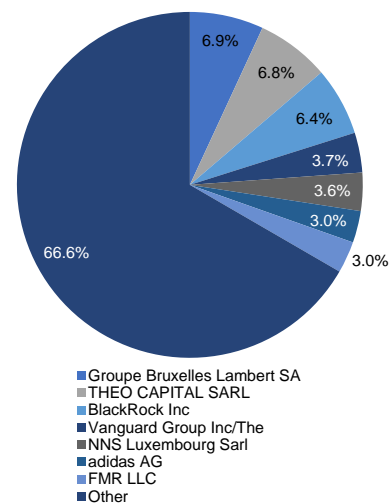


Figure 2: Ownership structure as of 01/12/2021

¹ Statista, "The adidas Group's footwear production worldwide 2008-2020", 2021.

² Adidas AG, "Annual report of Adidas AG 2020", March 2021.

designing specific approaches for each quarter to raise the targeted EBITDA margin to **above 15%** over the next five years.

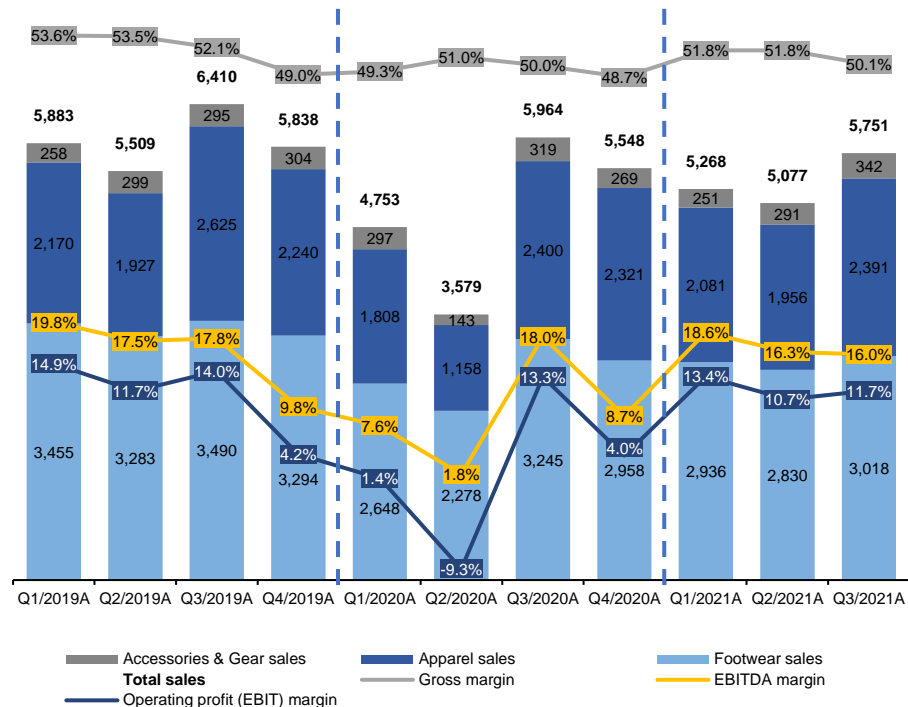


Figure 3: Seasonality of Adidas' sales and profits (EURm)

Strategy

In March 2021, Adidas expressed strategy “Own the Game” guides the company through 2025. Main goal is reinforcing the credibility of the German brand creating a unique consumer experience as well as expanding Adidas’ activities in terms of sustainability. The company strongly intends to significantly increase its sales and profitability as well as to gain market share until 2025. Adidas focuses on five strategic categories: football, running, training, outdoor and lifestyle. Building direct relationships with its target consumers gets increasingly more important. Therefore, Adidas intends to improve its operating model to serve its audience more directly by accelerating the transformation into a direct-to-consumer-led (DTC-led) business. Within its retail strategy, Adidas focuses on e-commerce business. However, physical stores will keep an important role regarding physical and emotional connection with the adidas brand. The company focuses on certain key cities around the globe: London, Los Angeles, New York, Paris, Shanghai, and Tokyo, by adding Mexico City, Berlin, Moscow, Dubai, Beijing, and Seoul. The company uses these 12 key cities as a mechanism for entering new products on the market, carrying out campaigns, and developing exclusive collections that allows them to get to know the consumer better with the goal of replicate on a

Adidas will shift to a DTC business model until 2025

Digital will be key

larger scale, as well as providing a closer and more exclusive contact, that allows the brand to gain notoriety in a more expensive range of products.

The DTC business consisting of e-commerce as well as physical adidas stores, is projected to account for around 50% of the company's sales by 2025 and furthermore to generate more than 80% of Adidas' targeted top-line growth. By 2025, the company aspires to double its **e-commerce sales between EUR 8-9bn** by investing significant amounts to drive this growth. Adidas maintains a digital ecosystem with over 500 million users across all its digital platforms that allows giving the creators instant feedback on all their products. This open-source approach leverages consumers' desire for the brand, as well as leverages their sales and market share. Geographically, Adidas will centre its activities on Greater China, EMEA as well as North America. Until 2025, these strategic markets shall account for 90% of its sales growth. Considering that the pandemic is not fully resolved and new, more aggressive variants such as Omicron are appearing, the part of the plan that includes physical stores cannot be fully developed and therefore, we consider that Adidas should allocate efforts to catalyze e-commerce sales to make up for the downturn.

Sale of Reebok

Adidas bought Reebok in 2006 for USD 3.8bn to gain Nike's foothold in the sportswear industry, which at first seemed to have happened as Reebok contributed approximately EUR 1,831m (22.7% of total sales) of Adidas' net sales in 2007. However, in 2020 Reebok only contributed EUR 1,407m (7.1% of total sales), recording a decline in sales of 20% in Reebok's strongest region EMEA, partly due to the covid pandemic. In August 2021, Adidas announced the sale of Reebok to Authentic Brands Group. The sale is expected to be concluded in the first three months of next year. Both parties agreed on a price of **EUR 2.1bn**, paid the majority in cash, and the remainder composed by deferred and contingent consideration.³ Most of the cash from the divestiture will be split through the shareholders. This sale came at an opportune moment that marks the beginning of a new era for the German brand that can invest part of this return in the development of the e-commerce supply chain and technology. We consider the sale as a positive step towards the goals of the new strategy since it allows Adidas to focus on its main brand, which should be crucial to gain market share from Nike⁴.

Transaction expected to be closed in the 1st quarter of 2022

³ Adidas AG, press release "[Adidas to sell Reebok to Authentic brands group](#)", August 2021.

⁴ Reebok's sales are not further considered within the reported sales segmentation starting in 2021, being classified as non-core business included within gain or loss of discontinued operations.

Industry and competitive landscape

To better understand Adidas' position and strategy in the coming years, it is important to investigate the industry in which the company operates. The company divides its operations into 5 market segments: EMEA, North America, Greater China, Asia-Pacific and Latin America. The covid pandemic brought numerous changes that will be reflected in the next years' figures. For instance, the **shift of the sales channels** from in-store to e-commerce is being strongly accelerated during the pandemic. In 2020 e-commerce was already accountable for 28.7% of the apparel and footwear total sales worldwide.⁵ Digital sales reinforce the brands' direct contact with the final consumer allowing a more personalized and higher quality service, while also cutting costs along the supply chain. At the same time, new opportunities arise in the on-site sales model, as the population tends to **leave large urban centers** in the short and medium-term, largely due to remote work.⁶ Brands can anticipate this shift and position themselves in emerging suburban areas and benefit from being the first movers. Adidas, while maintaining its strategy in the big cities, does not benefit from this factor. And so, will have to thrive more to keep stores open in the heart of big cities and survive against possible future restrictions that may arise due to the pandemic, pollution and sustainability related.

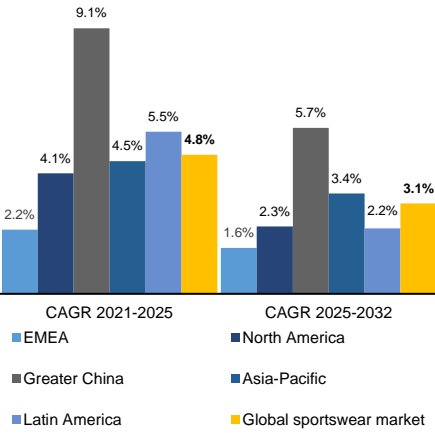


Figure 4: Sportswear market growth

Geographical overview

In 2020, the sportswear market was valued at **USD 269.7bn** and it expects a **CAGR 2021-2025 of 4.8%**.⁷

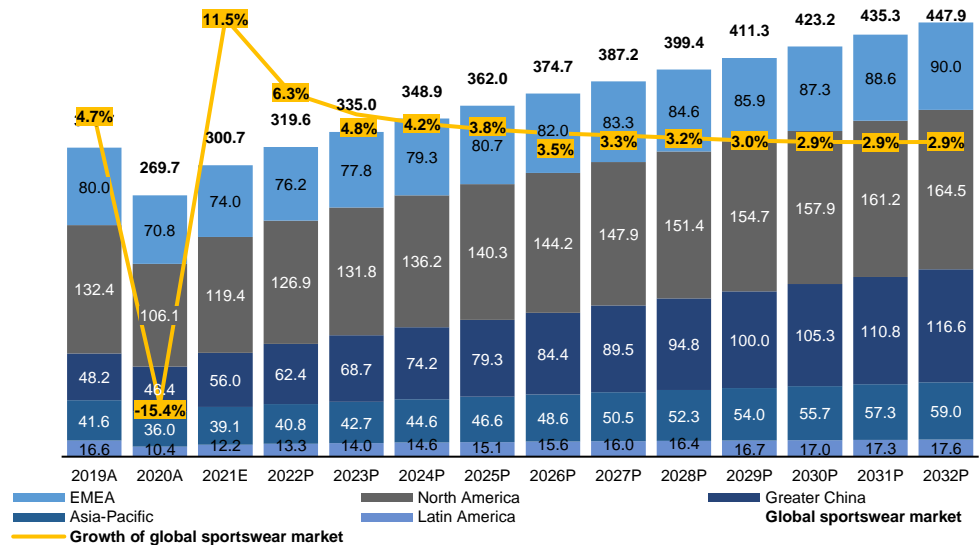


Figure 5: Global sales of sportswear market (USDbn)

⁵ Euromonitor, "Future of Commerce: A City View of Suburban Fashion Retailing", October 2021.

⁶ Euromonitor, "Future of Commerce: A City View of Suburban Fashion Retailing", October 2021.

⁷ Euromonitor, Global sportswear market data, December 2021.

EMEA to face a smooth and constant growth until 2032

In 2020, **EMEA** marks the second largest sportswear market with USD 70.8bn. EMEA is expected to have very steady growth through 2032 with CAGR 2021-2032 of 3.3% p.a. Within the EMEA sportswear market, both, Adidas, and Nike, are on par maintaining a respective market share of 14.1% in 2020 whilst Adidas being the leader in the sports apparels sector (9.2% market share in 2020) and Nike holding the pole position in sports footwear (23.9% market share in 2020)⁸. We do not expect large fluctuations during the next 5 years on key metrics like EBITDA growth and sales growth nor do we expect both Nike and Adidas to gain considerable advantage over the other.

North America provides significant growth potential, but strong competition

North America will still be the largest sportswear market in 2025 with a total value of **USD 140.3bn** and is also one of the most competitive markets. With 6 cities in the top 15 cities with the highest consumer expenditure in clothing and footwear. The North American market is very attractive and provides further opportunities for Adidas to grow. Adidas' direct-to-consumer (DTC) push could drive high-single-digit annual sales growth through 2025. Adidas is partnering with Jerry Lorenzo and the Fear of God Athletics supported to drive cultural relevance and gain credibility in the North American market.⁹ Adidas concentrates fewer on wholesale partners and intends to boost membership and hype with its confirmed app targeting "sneakerheads". With that app, the company aims to compete against Nike's SNKRs app. Consequently, the three-stripes-brand intends to strongly accelerate its DTC business in North America to expand its market share of 7.0% in 2020 and to **close the gap to market leader Nike** (17.5% global market share in 2020)¹⁰.

Asia-Pacific's enormous population with increasing purchasing power reflects a large future customer base

The impact of the pandemic in **Asia-Pacific** caused the economy to contract by -13.5% in 2020. Asia-Pacific has the largest population in the world, including the largest number of young people aged between 11 and 25, who will become the mainstay of consumption in the coming decades. This, allied to an intense investment in large-scale infrastructure investments by the governments of Asian countries, an expansion of middle-class population and significant increase in the purchasing power of households will make APAC one of the regions with the greatest potential for future growth. Adidas' strength with its top selling lifestyle footwear Gazelle and Stan Smith, in combination with investments in local sports such as the Indian football league helps to spur sales in Asia-Pacific. In the Asia-Pacific market segment (excluding Greater China), Adidas is the market leader

⁸ Euromonitor, Global sportswear market data, December 2021.

⁹ Bloomberg, "Adidas company outlook", August 2021.

¹⁰ Euromonitor, Global sportswear market data, December 2021.

having a market share of 13.2% and rejects the global leader Nike to the second rank (11.1% market share in 2020)¹¹.

With a market size of USD 46.4bn in 2020, **Greater China** is the third largest sportswear market worldwide and accounts for 60% of the whole Asian market volume. The region is expected to be one of the main drivers of the economic recovery, especially regarding the consumption of clothing and footwear goods.¹² Due to the high growth perspectives, athleisure retailers have a huge opportunity to expand their reach in that region. A growing middle class, with greater spending power and increasing interest in sports is expected to drive the market growth from USD 46.4bn in 2020 to USD 79.3bn in 2025 (**CAGR 2020-2025 of 11.3%**). In this region, the three-stripes-brand with 17.4% market share in 2020 lags Nike having 25.6% market share in 2020¹³. However, due to Adidas' planned actions defined in its new strategy, we are convinced that Adidas will recover. For instance, together with the Chinese Ministry of Education, Adidas forces to develop soccer in China offering the opportunity to have a first-mover advantage with younger consumers as well as boosts credibility and brand awareness. Adidas maintains a digital hub in Shanghai and continues to invest in digital capabilities. Moreover, Adidas develops products specifically for Chinese consumers being very successful in the past. For example, driven by a successful new Chinese year collection, **sales grew 156%** in local currency during the first quarter of 2021. In terms of Adidas sales channel mix, the company plans to intensify its e-commerce business as well as to increase its locations of omni-enabled halo stores and factory outlets in Greater China. Furthermore, Adidas' strong focus on DTC in China results in the fact that China is Adidas' most profitable market, with an **EBIT margin above 30%**. This margin will be pressured to decline slightly on the next half decade due to internal factors such as Adidas' massive investment in specific marketing for this region and due to external factors, such as geopolitical tensions, the scarcity of raw materials and the sudden failures in supply chains such as the blockage of the Suez Canal which has been felt more intensely since last year. Given all these factors, we expect that Adidas will be able to gain market shares in the upcoming years holding a share of 19.5% in 2022P.

Greater China as the main driver for COVID-19 economic recovery

The most profitable market recently showed more difficult conditions

¹¹ Euromonitor, Global sportswear market data, December 2021.

¹² Euromonitor, "Future of Commerce: A City View of Suburban Fashion Retailing", October 2021.

¹³ Euromonitor, Global sportswear market data, December 2021.

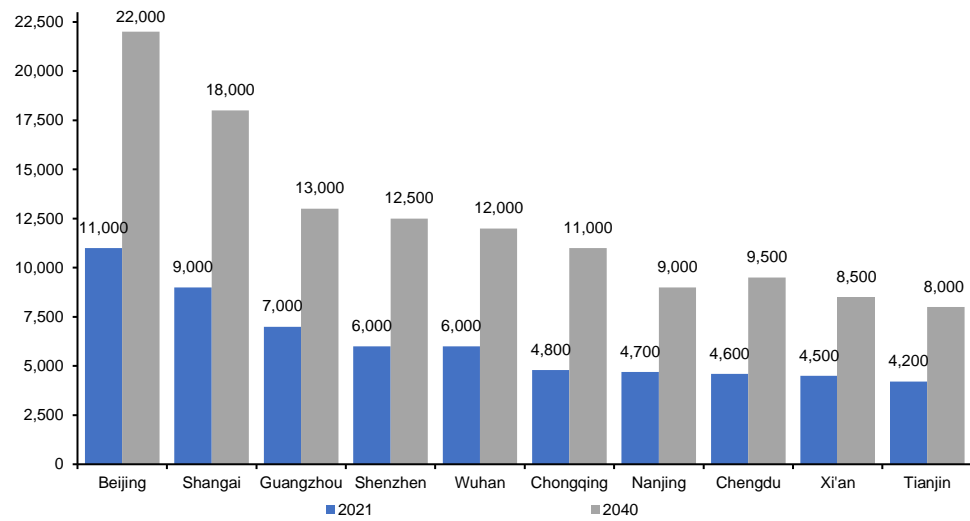


Figure 6: Consumer expenditure on clothing and footwear in China (USDm)

Latin America is particularly demarcated as it is one of the few in which both Adidas and Nike manage to maintain a large share many times above 20%, including on Brazil and Argentina. In this region, both Adidas and Nike hold large market shares of 16.0% and 17.7% in 2020¹⁴, respectively, making it difficult for smaller brands to enter the market. Due to the reduced formal regulation on competitiveness, both continually gain place in wholesale stores. The endorsement of Lionel Messi, the best football player in the world in 2021 and Argentina's conquest of Copa America are two of the key factors bringing large **credibility to Adidas in the football segment**, especially to Latin America customers who are big enthusiasts of this sport and may move Adidas to the upper position against Nike until 2025.

Adidas has identified North America and Greater China as the biggest potential growth regions, shifting much of its customer acquisition resources to them. Although there are several arguments in favour of the German brand, we believe that the geopolitical risks of these regions until 2032, namely in labour laws, competition, tax, among other possible issues, will not allow Adidas to prosper at the desired speed and that's why one should opt for a more contained annual growth when performing the valuation.

Peer group analysis

The industry is characterized by being very competitive with key competitors such as Nike, VF Corporation, Under Armour, Lululemon and Anta.

Adidas strengthens football segment in Latin America

North America as well as Greater China provide large growth opportunities

¹⁴ Euromonitor, Global sportswear market data, December 2021.

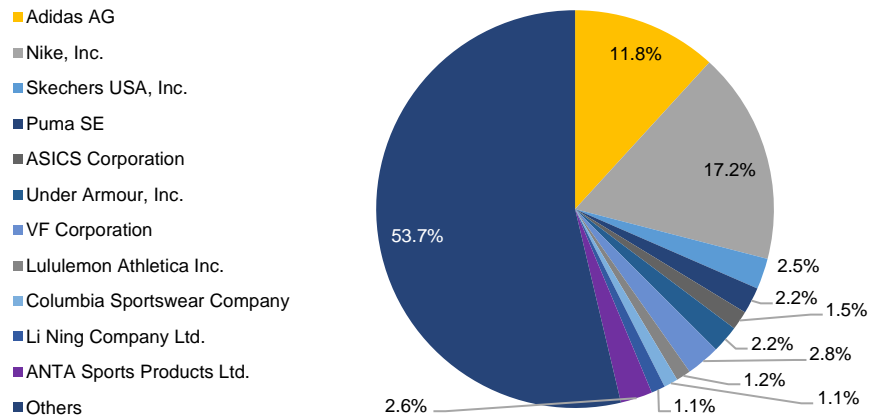


Figure 7: Market shares in the sportswear industry worldwide in 2020

With a sportswear market share of 17.2% in 2020, Nike was the largest sports brand in the world predominantly leading the global sports footwear market with a sector market share of 28.4% in 2020.¹⁵ The company dominates the North American USD106.1bn sportswear market and focuses strongly on digital solutions that helps to sustain the top position in North America across sports apparel and footwear. According to Euromonitor’s data, Nike is the most popular brand among Chinese activewear consumers. 26% reported that they purchased Nike clothing. In comparison with Adidas, 20% of Chinese activewear consumers stated purchasing clothing of the three-stripes-brand. This marks a clear indication that the Chinese population, especially the younger generation, is receptive for Western sports labels.¹⁶

Besides Nike and Adidas, the third largest player is **VF Corporation** holding a significant lower global market share of 2.8% in 2020¹⁷. The sportswear company based in Denver (Colorado) focuses on the design, manufacture, and distribution of footwear, apparel and accessories related to an active, semi-urban and outdoor lifestyle. Its portfolio includes brands such as The North Face, Timberland, Eastpak, Vans, among others. VF's vision is to be the market leader in terms of the simultaneous use of sustainable and high-performance materials, and as such it has been making acquisitions in this regard to accelerate its position as top leader. Investing in the use of this type of materials makes their products more expensive and less accessible to the masses. Which on the one hand guarantees high EBITDA margins (16.1% in 2020), relatively above most of its competitors, but on the other hand it creates a dependency on a smaller number of customers,



¹⁵ Euromonitor, Global sportswear market data, December 2021.

¹⁶ Linchpin SEO, article ["Trends Shaping the Athletic Apparel Industry Outlook for 2022"](#), October 2021.

¹⁷ Euromonitor, Global sportswear market data, December 2021.

which can end up causing a drastic reduction in sales in times of economic downturns, such as the covid-19 pandemic.

Another North American key competitor is **Under Armor** holding a global market share 2.2% in 2020¹⁸. At the beginning, the in Baltimore (Maryland) based company stood out for producing the best t-shirt in the market for athletes as it is light, comfortable, and sweat resistant resulting in sales growth of always above 20% between 2010 and 2016. More recently, other brands have managed to replicate models with the same features and often at lower prices, which has led to stagnation within Under Armor's sales and contributed, among other more crucial covid related factors, to an abrupt sales fall of -16.6% during the pandemic in 2020¹⁹ and lost ground to Lululemon and Adidas in the North American apparel market.



Another major player is the North American sportswear company **Lululemon** based in Canada. The competitor focuses on selling an active and comfortable lifestyle to all its customers, which allows them to sell their products at a premium price. This lifestyle is part of the new setting in that we are living since 2020. A large part of the population stopped going to their workplace and therefore adopted a more comfortable and relaxed look, which helped Lululemon to increase its sales by 7.5%²⁰ during the pandemic between 2019 and 2020. Their EBITDA in 2020 of 27.9% and a CAGR 2020-2025 of 21.7% are good indicators of financially healthy management and a promising future.



Due to the strength of Adidas' competitors, we expect a high competition in the **North American** market causing uncertainties about the success and impact of Adidas' forced actions to gain market share in the region.

One of Adidas' main competitors in Asia is **Anta**. The Chinese company invested in stronger branding during the recent years, with lower prices compared to its competitors and therefore, could attract a growing customer base in mainland China, where more consumers are exercising. Thus, Anta grew its market share from 9.3% in 2015 to 15.1% in 2020 in Greater China and provides equipment and material to 27 Chinese national teams. Anta has made multiple acquisitions and currently has 25 brands, dividing its portfolio into performance sports, fashion sports and outdoor sports to mitigate risk and simultaneously stimulate synergies between the brands. This followed strategy is expected to be also successful within the next years and therefore, the capital market estimates EBITDA margins of 28.2% in 2022 and sales CAGR 2021-2025 of 17.4%. Thus, we think that there is



¹⁸ Euromonitor, Global sportswear market data, December 2021.

¹⁹ Bloomberg, 01/12/2021.

²⁰ Lululemon's fiscal year ends at January 31, consequently sales were rebased in EUR as of December 31; Bloomberg, 01/12/2021.

the possibility that Anta continue to grow substantially in Greater China. That might implicate further market share gains in Greater China. Since Adidas holds a market share of 17.4% in Greater China, we identified the risk that Anta might close the gap and may overtake Adidas' No. 2 position in the region.

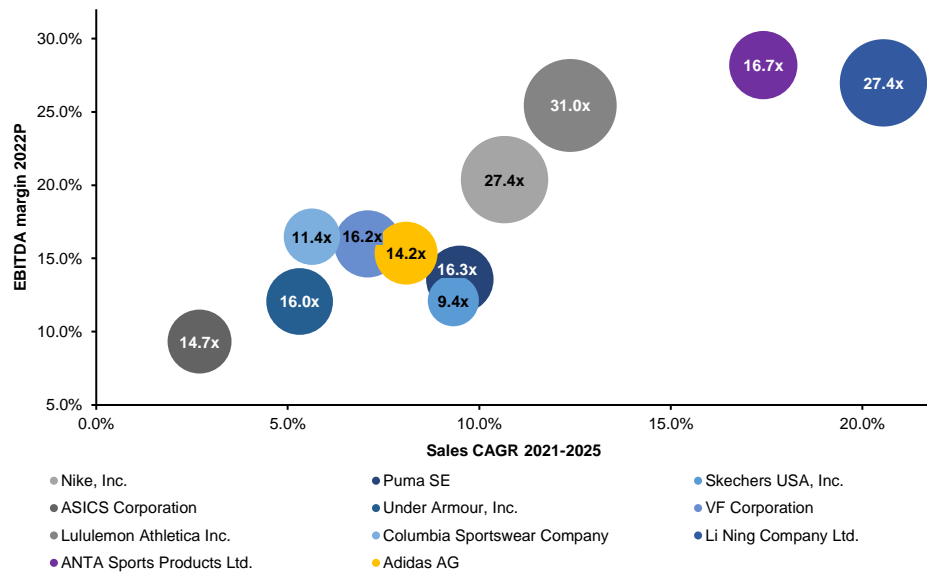


Figure 8: Peer group EV/EBITDA analysis

After carefully analysing the profitability and growth perspectives of the key players in the sportswear industry, we assert that Adidas (EBITDA margin 2022P of 15.4%, Revenue CAGR 2021-2025 of 8.1%) holds a mid-tier position in its peer group. Consequently, this mid-tier position is also acknowledged by the capital market implying an EV/EBITDA 2022P of 14.2x as of 01/12/2021. In comparison, the global market leader Nike is expected to realize an EBITDA margin of 20.4% in 2022 and sales CAGR 2021-2025 of 10.7%²¹. Consequently, capital market participants imply a much higher EV/EBITDA 2022P multiple of 27.4x²². In these terms, Nike clearly outperforms Adidas and indicates competitive advantages during the next years. Hence, especially in Nike's home market North America, we are expecting a hard competition between the two rivals and therefore implying a higher uncertainty of Adidas' ambition of gaining market shares in the North American market.

Moreover, it is observable that some of Adidas' main competitors in Asia like Li Ning and Anta, with EBITDA 2022P margins of 27.0%, 28.2% and sales CAGR 2021-2025 of 20.6%, 17.4%, respectively, considerably show higher margin and growth profiles. In comparison, the Japanese sportswear brand Asics shows significantly lower expected EBITDA margin (9.3% in 2022P) and growth

Adidas holds the mid-tier position among comparable competitors

²¹ Analyst consensus from Bloomberg, 01/12/2021.

²² Bloomberg, 01/12/2021.

perspectives (sales CAGR 2021-2025 of 2.7%). Consequently, these competitors significantly differ from Adidas' expected growth and margin profiles and are not considered as suitable comparables within its narrower peer group.

Concluding, in our perspective, Adidas maintains a strong position within the competitive landscape. Led by innovation, increased investment in sponsorships and digital solutions, Adidas can retain being No. 2 sports brand globally. However, due to the large gap to the market leader, it will be tough to replace Nike as World's No. 1 in sportswear.

Due to Adidas' already strong position in its home market EMEA and the occurrence of major sports events during the next years, we expect a further increasing brand awareness contributing to further market share gains. However, due to the overall lower EMEA sportswear market growth (CAGR 2021-2025 of 2.2%), Adidas' sales extensions will be less significant compared to other promising markets. Especially, the development in North America and Greater China will be material for the overall success of Adidas' recently announced strategy. We think that Adidas' planned actions in both markets will lead to market share gains (see section "**Forecast – sales**"). Due to the high competition in both markets, their magnitude is subject to uncertainty, and we account for the outcome of different market share within our scenario analysis.

Adidas has the potential to keep 2nd place on the sportswear market

Key drivers

To understand the business model and the further evolution of Adidas, identifying and investigating its key drivers is crucial. These drivers emerge from **internal and external factors** that must be recognized to make the most accurate forecasts. The following topics are the main drivers determining Adidas' perspectives and future growth.

After the covid-19 pandemic, the global sporting industry should recover significantly. Due to widespread vaccination and effective pandemic management, **97% of global Adidas stores** fleet could open at end of June 2021²³. Furthermore, the forecast of increasing consumer confidence as well as the return of major sports events strengthen the perspective for the whole industry. There are several global trends driving the sporting goods industry: "Athleisure", rising sports participation as well as increasing awareness for health and wellness. Additionally, consumers' environmental awareness is growing as well and thus, Adidas attach great importance for sustainability. In general, there is a shift in consumers'

Pandemic continuously impacts the whole industry

²³ Adidas AG, "[Q2/2021 results presentation](#)", August 2021.

purchasing behaviour. Consumers increasingly intend to buy products by using online and social channels. Therefore, Adidas' forces its e-commerce sales channels in combination with creating consumer premium shopping experiences. For the sportswear industry, risks in connection with disruptions caused by the covid-19 pandemic, supply chain challenges, escalating trade tensions, geopolitical situations as well as currency risks stay.

Athleisure

Sports-inspired apparel and footwear, the so called "athleisure" is further evolving as a fundamental element of the broader fashion landscape and is expected to have a **CAGR of 6.54%**²⁴ between 2021 and 2026 with a value of **USD 105.1bn**²⁵ in 2020. Athleisure is characterized by athletic clothing that is both convenient and aesthetical appealing. Lululemon is considered as the brand that sparked the athleisure trend in the 2010s and the whole sector continued to grow since the people increasingly want to combine aesthetics with comfort.²⁶ The covid-19 pandemic accelerated the upswing of the already growing athleisure industry that is especially driven by the younger generations and spreading around the world.²⁷ To enter this segment, Adidas created a third category called **Adidas Sportswear** besides the already established categories Adidas Originals and Adidas Performance²⁸. Its objective is to benefit from the first mover advantage and thus, position itself from the ground up being leader of this segment. This niche will boost Adidas' sports apparel market share over the next five years, particularly on the regions where remote working is more common and will reduce the distance to Nike in the overall sportswear industry.

Worldwide industry trend as major sales driver

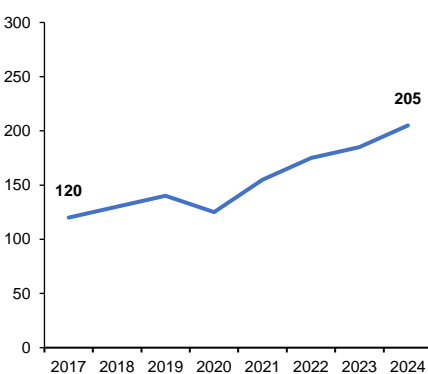


Figure 9: Global women's sports apparel forecast (USDbn)

Bloomberg, "Adidas company outlook", August 2021

Womenswear

Womenswear plays a critical role in the sportswear market. For instance, within the athletic apparel market, women account for **60% of the whole market**. The rising interest in yoga clothing (2020: +144% sales growth compared to 2019) is one aspect explaining the dominance of womenswear in the global sportswear market.²⁹ Adidas can catalyse sales in this sector by betting on a women's line with **inclusive sizing** to be accessible to all types of women whether they practice sports or not, and simultaneously it could be a social media move that can become viral. Collections in partnership with female celebrities outside the sports world can make Adidas gain market share by mixing athleisure with womenswear and these

²⁴ Report Linker, "[Global Athleisure Market - Growth, Trends, COVID-19 Impact, and Forecasts \(2021 - 2026\)](#)", November 2021.

²⁵ Statista, graph "[Value of the sports apparel market in the United States in 2020 and 2021](#)", December 2020.

²⁶ Investopedia, "[Lululemon \(LULU\) Poised to Maintain Momentum](#)", December 2020.

²⁷ Linchpin SEO, article "[Trends Shaping the Athletic Apparel Industry Outlook for 2022](#)", October 2021.

²⁸ Adidas AG, presentation "[Strategy Own the game 2025](#)", March 2021.

²⁹ Linchpin SEO, article "[Trends Shaping the Athletic Apparel Industry Outlook for 2022](#)", October 2021.

partnerships can be designed specifically for each reporting region. A good example was the collab between Adidas and Beyoncé with the IVY PARK apparel collection launched in January 2020.

Rising sports participation and awareness

People throughout all society classes around the world are increasingly interested in keeping themselves fit and healthy. To compete against Nike's and Under Armour's fitness apps Nike+ and MyFitnessPal and to strengthen its position within the digital health and fitness sector, Adidas acquired **Runtastic** in 2015, a leading fitness app provider offering a comprehensive ecosystem for tracking and managing health and fitness data. The main reason for acquiring Runtastic was not generating revenues from the app itself but being present for sporty people through this online platform and **advertising** its existing products. Thus, the app functions as mean of raising awareness and customer engagement to drive its revenues coming from its established product categories.

Runtastic shall drive sales of already established products

Sustainability

Nowadays, sustainability plays an increasing role when consumers are making purchases. A survey reflected that more than 70% of consumers consider sustainability as an important criterion when making their purchase decisions.³⁰ Customers are getting increasingly environmentally conscious and demanding higher transparency about the production of clothing. Therefore, clothing companies are examining their supply chains to assure sustainability aspects such as usage of environmentally friendly materials, environment protection and fair labour conditions. During the past year 2020, athletic apparel produced with recycled materials grew by 642% for man and 388% for women.³¹ Ranging from football jerseys created by recycled polyester to vegan editions of the iconic Stan Smith sneaker, Adidas reached an intermediate target of more than 60% of products being generated by using sustainable materials.³² By 2025 the three-stripes-brand intends to provide 9 out of 10 articles to be sustainable³³. To join the trend, Adidas will expand its **vegan apparel and footwear** collection over the next 5 years and from 2024 onwards it will completely abandon cotton and fur, using recycled polyester and plastic waste as its main alternative³⁴. Adidas joined 11 different institutions with the objective of achieving sustainability in the most different areas, colluding with the goals of sustainable development.

9 out of 10 articles to be sustainable by 2025

³⁰ Infotechlead.com, newspaper article "[Adidas reveals investment in digital transformation and online sales target](#)", March 2021.

³¹ Linchpin SEO, article "[Trends Shaping the Athletic Apparel Industry Outlook for 2022](#)", October 2021.

³² Adidas AG, press release "[Adidas: In 2021, more than 60% of all products will be made with sustainable materials](#)", December 2020.

³³ Infotechlead.com, newspaper article "[Adidas reveals investment in digital transformation and online sales target](#)", March 2021.

³⁴ Adidas AG, press release "[Adidas: In 2021, more than 60% of all products will be made with sustainable materials](#)", December 2020.

E-commerce

According to the recently published Apparel Report 2021 of Statista, during the pandemic online sales channels gained 5.5 percent points of revenue share in 2020 and so accounted for 29.7% of the total apparel revenues worldwide. In 2025, the online sales channels are expected to account for 43.1% of the total global apparel revenues.³⁵ Adidas' CEO Kasper Rorsted's expectations about the sportswear sector are in line with the general industry outlook awaiting that more than 40% of the industry's sales coming from e-commerce with online growing three times faster than offline.³⁶ In 2020, Adidas registered an extraordinary boost of its e-commerce sales of around EUR 4.2bn representing a **currency-neutral growth of 53%** compared to the previous year. It amounts to 21.0% of its 2020 total sales being the major contributor to its massively increased DTC business share of 41.0% in 2020.

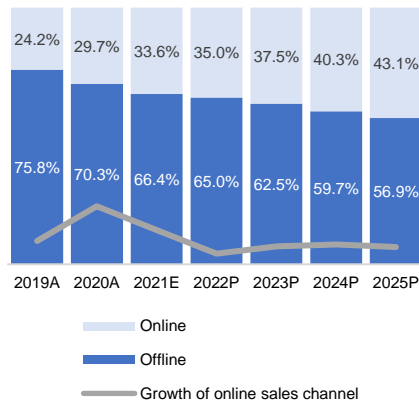


Figure 10: Revenue shares of sales channels within the worldwide apparel market

While retail stores were closed due to the pandemic, the world experienced the power of the e-commerce business. Due to that convenience, Adidas recognizes the increasing importance of its e-commerce activities and forces to further develop this sales channel by formulating the goal of reaching **EUR 8-9bn online sales in 2025** within its new strategy. Therefore, Adidas shifted its marketing and tech budget toward digital and spent a lot of efforts to provide premium, connected, and personalized experiences that enable **direct relationships with consumers**. Adidas' e-commerce platform is available in over 50 countries across all major markets. Adidas' app functions as its gateways between online and offline by immersive storytelling, personalized content, order tracking, access to its membership program "Creators Club" and therefore always raising brand awareness resulting in potential purchases, either online or offline. Furthermore, membership programs get increasingly important in retail business since it allows continuous interaction and fosters customer engagement. Key metrics of Adidas' "Creator Club" program already show its success. In comparison to non-members, members possess an increased customer satisfaction and have a **more than twice as high customer lifetime value**. In addition to its already established and continuously growing consumer touchpoints, Adidas launched its "Confirmed" app in the US and China in 2020 and more recently in EMEA. The app serves as premium channel for sneakerheads and style conscious people providing access to exclusive sneaker releases and hype drops which will encourage the sale of premium products at full price. The company intends to make data-driven decisions focusing consumer insights and trends.

³⁵ Statista, "[Apparel Report 2021 – Consumer Market Outlook](#)", August 2021.

³⁶ Infotechlead.com, newspaper article "[Adidas reveals investment in digital transformation and online sales target](#)", March 2021.

“Speed”

>50% of consumers shall receive next day deliveries

Most of the sportswear companies are focusing more and more on increasing speed alongside their supply chain and within their processes. In 2020, products created less than a year ago accounted for 68% of Adidas’s sales, while products created three or more years ago accounted for only 2%.³⁷ This together with the growth of product customization puts pressure on Adidas to increase its speed to market and always have the right products available for the customer. Adidas’ efforts in that matter enabled a **reduction of production lead time to 60 days** or less for the most of its footwear, apparel and other products as well as expanded its fast-replenishment capabilities of best-selling items.³⁸

Moreover, investments in automation technology, including auto cutting, computerized stitching, robotic adhesive spray and 3D printers improves Adidas’ supply chain cost efficiencies by reducing transformation costs while depending less on human resources. Furthermore, Adidas is working on providing its customers a superior delivery experience. For instance, the company intends to enable next day delivery for more than 50% of consumers around the world in the next 5 years, to allow consumer choices for delivery speed, time, and location and to ensure superior reliability in on-time-delivery. In addition to ensuring speed to market, it is important, above all, to ensure that the products reach consumers. In the last quarter Q3/2021, lockdowns caused production interruptions in Vietnam being the world’s most important manufacturer country for shoes as well as Adidas’ most important producer region. Given the current tensions around supply chains, Adidas has a shrewd strategy in limiting its dependency from certain production regions and not relying too excessively on one region. This mechanism shall ensure a certain production level and allow reallocation in the event of natural disaster, disruptions of any kind or sudden increase in logistical costs.

Adidas wants to introduce **AI technology** to forecast demand in a particular region and period³⁹. This effort will have a positive effect on revenues as Adidas will boost sales at full price and maximize its’ margins.

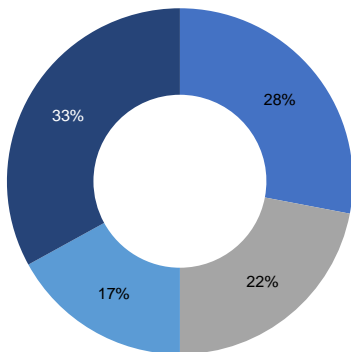


Figure 11: Adidas' production volume allocation

³⁷ Bloomberg, “Adidas company outlook”, August 2021.

³⁸ Bloomberg Intelligence, report “Adidas Research”, September 2021.

³⁹ Bloomberg, “Adidas company outlook”, August 2021.